

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Downtown Development Auth of Lapeer	County Lapeer
Fiscal Year End 6/30/06	Opinion Date 8/25/06	Date Audit Report Submitted to State 12/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Layton and Richardson, P.C.		Telephone Number 517-332-1900	
Street Address 1000 Coolidge Road		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature <i>Vickie L. Crouch, CPA</i>		Printed Name Vickie Crouch	License Number 1101013436

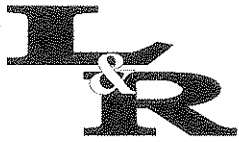
DOWNTOWN DEVELOPMENT AUTHORITY
OF THE CITY OF LAPEER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Members of the Downtown Development
Authority of the City of Lapeer
Lapeer, Michigan

We have audited the accompanying basic financial statements of the governmental activities of the DOWNTOWN DEVELOPMENT AUTHORITY OF THE CITY OF LAPEER, MICHIGAN as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Downtown Development Authority of the City of Lapeer, Michigan, as of June 30, 2006, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of the Downtown Development Authority of the City of Lapeer, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the Downtown Development Authority of the City of Lapeer, Michigan's basic financial statements. The introductory section and supplementary section are presented for purposes of additional analysis and are not required part of the basic financial statements. The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Layton & Richardson, P.C.

Certified Public Accountants

August 25, 2006
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Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Lapeer's financial performance provides an overview of the Downtown Development Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Downtown Development Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Lapeer Center for the Arts (LCA) had building improvements during the fiscal year at a cost of \$340,818 which is shown as construction in progress. This will provide space for art exhibits, classes, etc. Renovation of the main floor was sufficiently completed and the grand opening occurred on November 5, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Downtown Development Authority as a whole and present a longer-term view of the Downtown Development Authority's finances. Fund financial statements provide more detailed information about the Downtown Development Authority's funds- not the Downtown Development Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

Reporting the Downtown Development Authority as a Whole

One of the most important questions asked about the Downtown Development Authority's finances is, "Is the Downtown Development Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Downtown Development Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Downtown Development Authority's *net assets* and changes in them. You can think of the Downtown Development Authority's net assets – the difference between assets and liabilities – as one way to measure the Downtown Development Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Downtown Development Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Downtown Development Authority's captured property tax base to assess the *overall health* of the Downtown Development Authority:

In the Statement of Net Assets and the Statement of Activities, the Downtown Development Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities – The Downtown Development Authority’s services are reported here. Property taxes finance most of these activities.

Reporting the Downtown Development Authority’s Most Significant Funds

The fund financial statements provide detailed information about the Downtown Development Authority’s funds. The Downtown Development Authority’s funds utilize the *governmental* accounting approach.

- *Governmental funds* – Most of the Downtown Development Authority’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Downtown Development Authority’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Downtown Development Authority’s programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE DOWNTOWN DEVELOPMENT AUTHORITY AS A WHOLE

Table 1 was summarized from the Downtown Development Authority Statement of Net Assets. The net assets of the Downtown Development Authority increased from \$240,775 to \$517,941, an increase of \$277,166 or 115.1%. In the prior year, the net assets increased from \$208,200 to \$240,775, an increase of \$32,575 or 15.6%.

Table 1
Net Assets
(In Thousands)

	<u>Governmental Activities</u> 2006	<u>Governmental Activities</u> 2005
Current and other assets	\$ 128.0	\$ 169.3
Capital assets	<u>586.7</u>	<u>232.4</u>
Total assets	<u>714.7</u>	<u>401.7</u>
Long-term debt		
Outstanding	137.3	157.6
Other liabilities	<u>59.5</u>	<u>3.3</u>
Total liabilities	<u>196.8</u>	<u>160.9</u>
Net assets:		
Invested in capital assets,		
Net of debt	449.4	74.8
Restricted	0.0	0.0
Unrestricted (deficit)	<u>68.5</u>	<u>166.0</u>
Total net assets	<u>\$ 517.9</u>	<u>\$ 240.8</u>

Governmental Activities

As stated previously, the net assets of the Downtown Development Authority's governmental activities decreased by \$277,166 or 115.1%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of \$68,510.83.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Downtown Development Authority.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 0.0	\$ 0.0
Operating grants and contributions	2.3	0.0
General revenues:		
Property taxes	33.9	32.9
Other	<u>22.6</u>	<u>18.1</u>
Total Revenues	<u>58.8</u>	<u>51.0</u>
Expenses:		
General government	\$ 111.5	\$ 116.5
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>111.5</u>	<u>116.5</u>
Increase in net assets		
Before transfers	(52.7)	(65.5)
Transfers	<u>329.8</u>	<u>98.1</u>
Increase (Decrease) in Net Assets	277.1	32.6
Net assets, July 1	<u>240.8</u>	<u>208.2</u>
Net assets, June 30	<u>517.9</u>	<u>240.8</u>

Total revenue from all sources totaled \$58,816 of which 57.7% or \$33,928 is from property taxes. Other revenues consist of unrestricted investment earnings of \$4,950, rental income of \$14,448 and miscellaneous revenue of \$3,190. The Downtown Development Authority also receives a transfer of captured taxes from the General Fund of the City of Lapeer in the amount of \$84,904, a transfer from the Housing Resource Fund in the amount of \$307,500 to fund Building Improvements for the Lapeer Center for the Arts (LCA Fund), and a transfer from the Infrastructure Fund in the amount of \$5,000 to fund Building Improvements at the Pix Theater. The Downtown Development Authority captured the City of Lapeer millage rate of 9.8000 and the county operation millage of 3.8165 for this fiscal year.

The governmental activities of the Downtown Development Authority had an expense of \$111,513, including depreciation expense of \$5,923, for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation would be included as an expense. Additionally, the Downtown Development Authority had transfers to the General Fund in the amount of \$8,518 for payment of the city administration fee, a transfer to the General Fund of \$30,368 for Reimbursement for roof repairs on the LCA Building, a transfer to the Major Street Fund of \$26,782 to reimburse this fund for their share of the 2002 General Obligation Bond issued to fund a portion of the cost for the Downtown Improvement Project, a transfer to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, and a transfer to the Parking Fund in the amount of \$7,892 to provide an operational subsidy to the Parking Fund. Additionally, the Downtown Development Authority Fund provided an operational subsidy to the LCA Fund in the amount of \$30,000.

The \$111,513 for governmental activities along with the transfers of \$87,879 to the general fund, major street fund, 2005 equipment financing fund, and parking fund of the City of Lapeer is funded from \$33,928 in property taxes. Additionally, the balance of this cost is funded from transfers from the City of Lapeer General Fund for captured taxes in the amount of \$84,904, the Housing Resource Fund in the amount of \$307,500 for building improvements, and the Infrastructure Fund in the amount of \$5,000 for building improvements and other revenues.

THE DOWNTOWN DEVELOPMENT AUTHORITY'S FUNDS

The Downtown Development Authority received a total of \$118,832 in captured property taxes. The Downtown Development Authority expended funds on various projects this year which included the reimbursement to the City of Lapeer for debt service on the 2002 General Obligation bond issued to fund a portion of the cost of the Downtown Improvement Project in the amount of \$26,782. They also expended funds for a transfer to the General Fund of \$30,368 for Reimbursement for roof repairs on the LCA Building, a transfer to the 2005 Equipment Financing Fund of \$14,319 to pay the debt service on the LCA Building, a transfer to the Parking Fund in the amount of \$7,892 to provide an operational subsidy to the Parking Fund, a transfer to the LCA Fund in the amount of \$30,000 to provide an operational subsidy, the Pix Arts Council Promotion Services Agreement in the amount of \$30,000 and repairs to the Pix Theater in the amount of \$28,514. Funds were expended in the amount of \$15,000 for a Promotion Services Agreement with the Downtown Business Association to administer the Farmer's Market Program. Other expenses of the district include legal fees of \$841, design committee of \$1,394, development committee of \$6,960, and other miscellaneous items in the amount of \$3,222. Additionally, the district pays an administration fee to the City of Lapeer in the amount of \$8,518 for accounting services and project management. The fund balance decreased from \$133,199 to \$59,385, a reduction of \$73,814 or 55.4%.

The LCA Fund received total revenues of \$18,868 which was comprised of Rental Income in the amount of \$14,448, MCACA grant of \$2,300, interest income of \$285, and miscellaneous revenue of \$1,835. Additionally, the Downtown Development Authority Fund provided an operational subsidy of \$30,000 and the Housing Resource Fund provided funding from a CDBG grant in the amount of \$307,500 to be utilized for building improvements. The total expenditures were \$380,192 and consisted of building improvements in the amount of \$340,818 which is included in Construction in Progress, property maintenance and utilities in the amount of \$18,041, Exhibit Fees in the amount of \$5,753, Supplies of \$2,671, and other miscellaneous expenses \$12,909. The fund balance decreased from \$33,951 to \$10,128 a decrease of \$23,823 or 70.2%.

Downtown Development Authority Budgetary Highlights

The Downtown Development Authority Budget total did not change during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Downtown Development Authority's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$586,718.78 (net of accumulated depreciation). This is an increase of \$354,339.39 from the prior year amount of \$232,379.39. This investment in capital assets is for land, buildings, and equipment.

Major capital asset events during the current fiscal year included the following:

- Building Improvements to the Lapeer Center for the Arts (LCA) located at 194 W. Nepessing were substantially completed as of June 30, 2006 with a cost incurred this fiscal year of \$340,817.81 which is included as Construction in Progress.

Debt

At year-end, the Downtown Development Authority's total bonded debt outstanding was at \$137,288 versus \$157,627 last year – a decrease of \$20,339 or 12.9%-as shown in Table 3.

Table 3
Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
General Obligation bonds (backed by the City)	<u>\$ 137.3</u>	<u>\$ 157.6</u>
Totals	<u>\$ 137.3</u>	<u>\$ 157.6</u>

The Downtown Development Authority has agreed to fund a portion of the 2002 General Obligation Bond which was issued to fund a portion of the cost of the Downtown Improvement Project. The total amount issued was \$590,000 of which \$200,000 will be funded by the Downtown Development Authority.

The City's general obligation bond rating continues to carry a Baa from Moody's Investor Services since 1993 while Standard & Poor's has upgraded the City's rating from a BBB+ to an A-.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

These factors were considered in preparing the Downtown Development Authority of Lapeer's budget for Fiscal Year 2006-2007.

The Downtown Development Authority reviews its current budget to determine available fund balances to be appropriated for the new-year budget. This, along with the projected captured taxable value from the city assessor, provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Downtown Development Authority Board. Funds not appropriated for specific projects are budgeted as "Contingency". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

Requests for Information

This financial report is designed to provide a general overview of the Downtown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash - checking	\$ 16,636.07	\$	\$ 16,636.07
Cash - savings	108,847.33		108,847.33
Due from other funds	2,524.41		2,524.41
Capital assets		586,718.78	586,718.78
	<u>\$ 128,007.81</u>	<u>\$ 586,718.78</u>	<u>\$ 714,726.59</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 7,286.98	\$	\$ 7,286.98
Security deposits	1,250.00		1,250.00
Due to other funds	49,958.00		49,958.00
Accrued interest		1,002.00	1,002.00
Long-term liabilities			
Portion due within one year		20,338.98	20,338.98
Portion due after one year		116,949.15	116,949.15
	<u>58,494.98</u>	<u>138,290.13</u>	<u>196,785.11</u>
FUND BALANCE			
Invested in capital assets, net of related debt		449,430.65	449,430.65
Unreserved	69,512.83	(1,002.00)	68,510.83
	<u>69,512.83</u>	<u>448,428.65</u>	<u>517,941.48</u>
	<u>\$ 128,007.81</u>	<u>\$ 586,718.78</u>	<u>\$ 714,726.59</u>

See accompanying notes to financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds		\$	69,512.83
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$292,004.00 and the accumulated depreciation is \$46,103.03			586,718.78
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds payable	\$	137,288.13	
Accrued interest		<u>1,002.00</u>	<u>(138,290.13)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		\$	<u>517,941.48</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE,
EXPEDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES/EXPENSES			
General government	\$ 466,122.80	\$ (360,532.81)	\$ 105,589.99
Depreciation		5,923.38	5,923.38
	<u>466,122.80</u>	<u>(354,609.43)</u>	<u>111,513.37</u>
REVENUES			
Program Revenues			
Operating grants and contributions	<u>2,300.00</u>		<u>2,300.00</u>
Net program expense	<u>(463,822.80)</u>	<u>354,609.43</u>	<u>(109,213.37)</u>
General Revenues			
Property taxes	33,928.28		33,928.28
Interest income	4,949.80		4,949.80
Miscellaneous	17,783.36	(145.04)	17,638.32
Transfers - internal activities	<u>309,524.83</u>	<u>20,338.98</u>	<u>329,863.81</u>
	<u>366,186.27</u>	<u>20,193.94</u>	<u>386,380.21</u>
CHANGE IN NET ASSETS	(97,636.53)	374,803.37	277,166.84
FUND BALANCE/NET ASSETS, JULY 1	<u>167,149.36</u>	<u>73,625.28</u>	<u>240,774.64</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>69,512.83</u></u>	\$ <u><u>448,428.65</u></u>	\$ <u><u>517,941.48</u></u>

See accompanying notes to financial statements.

DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

Net changes in fund balances - total governmental funds	\$ (97,636.53)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	
Less: current year depreciation	(5,923.38)
Purchases of fixed assets	360,407.81
Loss on disposal of fixed assets	(145.04)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	125.00
Principle payments	20,338.98
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>277,166.84</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: REPORTING ENTITY

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Downtown Development Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statements

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) reports information on all of the nonfiduciary activities of the primary government of the Downtown Development Authority of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2006

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** -- Continued

B. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Downtown Development Authority.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Downtown Development Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Concluded

D. Capital Assets - Concluded

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: CASH AND INVESTMENTS

Investments consisted principally of an interest bearing savings account at June 30, 2006. Investment income is credited to the cash account as it is received.

State statutes authorize the City Treasurer to invest in obligations of the U.S. Treasury, agencies and instrumentalities; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest rate classifications of two rating services; United States government or federal agency obligation repurchase agreements; and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

Authority's Cash and Investment Pool

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to the government. As of June 30, 2006, \$18,664.64 of the Authority's total bank balance of \$127,024.20 (total book balance was \$125,483.40) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The Authority's investment policy requires that only those banks or savings and loan institutions that are members of the FDIC or FSLIC will be considered for depository purposes, but recognizes that it is impractical to insure all bank deposits due to the limitations of depository insurance. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk. The Authority's investments in financial institutions will be held with a qualified institution.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2006

NOTE 3: CASH AND INVESTMENTS - Concluded

The Authority has adopted a formal investment policy as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2006, are as follows:

FUND	DUE TO	FUND	DUE FROM
General	\$ <u>2,524.41</u>	Downtown Dev. Authority	\$ <u>2,524.41</u>

NOTE 5: CHANGES IN LONG-TERM DEBT

Changes in long-term debt of the Authority are as follows:

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
2002 General Obligation Tax Bond	\$ <u>157,627.11</u>	\$ _____	\$ <u>20,338.98</u>	\$ <u>137,288.13</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2006, including interest of \$25,713.55 are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION
2007	\$ 25,916.94
2008	25,052.54
2009	24,183.05
2010	28,271.19
2011	27,139.83
2012	<u>25,995.76</u>
	\$ <u>156,559.31</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2006

NOTE 6: CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	JULY 1	ADDITIONS	DELETIONS	JUNE 30
Capital assets not being depreciated				
Land	\$ 154,000.00	\$	\$	\$ 154,000.00
Construction in progress	<u> </u>	<u>340,817.81</u>	<u> </u>	<u>340,817.81</u>
Total capital assets not being depreciated	<u>154,000.00</u>	<u>340,817.81</u>	<u> </u>	<u>494,817.81</u>
Capital assets being depreciated				
Buildings	118,667.00	19,590.00	253.00	138,004.00
Equipment	<u>5,023.29</u>	<u> </u>	<u>5,023.29</u>	<u> </u>
Total capital assets being depreciated	<u>123,690.29</u>	<u>19,590.00</u>	<u>5,276.29</u>	<u>138,004.00</u>
Less: Accumulated depreciation				
Buildings	40,287.61	5,923.38	107.96	46,103.03
Equipment	<u>5,023.29</u>	<u> </u>	<u>5,023.29</u>	<u> </u>
Total accumulated depreciation	<u>45,310.90</u>	<u>5,923.38</u>	<u>5,131.25</u>	<u>46,103.03</u>
Total capital assets being depreciated, net	<u>78,379.39</u>	<u>13,666.62</u>	<u>145.04</u>	<u>91,900.97</u>
Net capital assets	<u>\$ 232,379.39</u>	<u>\$ 354,484.43</u>	<u>\$ 145.04</u>	<u>\$ 586,718.78</u>

NOTE 7: OPERATING TRANSFERS

The operating transfers between funds are as follows:

FUND	TRANSFER IN	FUND	TRANSFER OUT
Downtown Dev. Authority	\$ <u>84,903.51</u>	General	\$ <u>84,903.51</u>
Debt Service		Downtown Dev. Authority	\$ 87,878.68
General	\$ 38,886.00		
Major street	26,781.35		
2005 Equipment financing	14,319.33		
Parking	<u>7,892.00</u>		
TOTAL	\$ <u>87,878.68</u>	TOTAL	\$ <u>87,878.68</u>
Downtown Development Authority	\$ <u>5,000.00</u>	Capital Improvement	\$ <u>5,000.00</u>
LCA	\$ 337,500.00	Housing Resource	\$ 307,500.00
	<u> </u>	Downtown Dev. Authority	<u>30,000.00</u>
TOTAL	\$ <u>337,500.00</u>		\$ <u>337,500.00</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2006

NOTE 8: INTERFUND RECEIVABLES/PAYABLES

The operating transfers between funds are as follows:

	DUE FROM		DUE TO
General	\$ <u>84,903.51</u>	Downtown Development Authority	\$ <u>84,903.51</u>

REQUIRED SUPPLEMENTARY INFORMATION

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Property taxes	\$ 20,123.00	\$ 20,123.00	\$ 32,804.87	\$ 12,681.87
Penalty and interest			1,123.41	1,123.41
Interest income	1,000.00	1,000.00	4,664.63	3,664.63
Miscellaneous	1,500.00	1,500.00	1,500.00	
TOTAL REVENUES	<u>22,623.00</u>	<u>22,623.00</u>	<u>40,092.91</u>	<u>17,469.91</u>
EXPENDITURES				
Attorney	2,000.00	2,000.00	841.25	1,158.75
Design committee	7,500.00	7,500.00	1,393.50	6,106.50
Beautification	1,500.00	1,500.00	958.66	541.34
Lapeer Development Corporation	750.00	750.00	750.00	
Development committee	10,000.00	10,000.00	6,959.88	3,040.12
Property maintenance and utilities	2,000.00	2,000.00	1,959.82	40.18
Promotion services agreement	45,000.00	45,000.00	45,000.00	
Buildings	5,000.00	5,000.00	28,514.40	(23,514.40)
Contingency	98,096.00	98,096.00		98,096.00
Miscellaneous	1,500.00	1,500.00	(446.35)	1,946.35
TOTAL EXPENDITURES	<u>173,346.00</u>	<u>173,346.00</u>	<u>85,931.16</u>	<u>87,414.84</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(150,723.00)</u>	<u>(150,723.00)</u>	<u>(45,838.25)</u>	<u>104,884.75</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	101,236.00	101,236.00	89,903.51	(11,332.49)
Transfers out	(87,513.00)	(87,513.00)	(117,878.68)	(30,365.68)
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,723.00</u>	<u>13,723.00</u>	<u>(27,975.17)</u>	<u>(41,698.17)</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(137,000.00)</u>	<u>(137,000.00)</u>	<u>(73,813.42)</u>	<u>63,186.58</u>
FUND BALANCE, JULY 1	<u>133,198.59</u>	<u>133,198.59</u>	<u>133,198.59</u>	
FUND BALANCE, JUNE 30	<u>\$ (3,801.41)</u>	<u>\$ (3,801.41)</u>	<u>\$ 59,385.17</u>	<u>\$ 63,186.58</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LCA FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES				
Interest income	\$	\$	\$ 285.17	\$ 285.17
Rental income		22,800.00	14,448.50	(8,351.50)
MCACA Grant			2,300.00	2,300.00
Miscellaneous			1,834.86	1,834.86
TOTAL REVENUES		22,800.00	18,868.53	(3,931.47)
EXPENDITURES				
Supplies		6,000.00	2,671.18	3,328.82
Property and boiler insurance		520.00	487.00	33.00
Equipment rental		3,480.00	907.65	2,572.35
Exhibit fees		19,000.00	5,753.10	13,246.90
Membership and subscriptions		600.00	214.95	385.05
Advertising		2,400.00	938.25	1,461.75
Printing		2,400.00	871.72	1,528.28
Conferences and workshops		1,000.00	200.00	800.00
Property maintenance and utilities		10,800.00	18,041.25	(7,241.25)
Buildings			340,817.81	(340,817.81)
Miscellaneous		6,600.00	9,288.73	(2,688.73)
TOTAL EXPENDITURES		52,800.00	380,191.64	(327,391.64)
DEFICIENCY OF REVENUES OVER EXPENDITURES		(30,000.00)	(361,323.11)	(331,323.11)
OTHER FINANCING SOURCES (USES)				
Transfers in		30,000.00	337,500.00	307,500.00
Transfers out		(67,500.00)		67,500.00
TOTAL OTHER FINANCING SOURCES (USES)		(37,500.00)	337,500.00	375,000.00
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(67,500.00)	(23,823.11)	43,676.89
FUND BALANCE, JULY 1		33,950.77	33,950.77	
FUND BALANCE, JUNE 30	\$	\$ (33,549.23)	\$ 10,127.66	\$ 43,676.89

SUPPLEMENTARY INFORMATION

DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN
COMBINED BALANCE SHEET
JUNE 30, 2006

	GENERAL OPERATIONS	LCA FUND	TOTAL
ASSETS			
Cash in checking	\$ 16,636.07	\$	\$ 16,636.07
Cash in savings	90,182.69	18,664.64	108,847.33
Due from other funds	<u>2,524.41</u>		<u>2,524.41</u>
TOTAL ASSETS	<u>\$ 109,343.17</u>	<u>\$ 18,664.64</u>	<u>\$ 128,007.81</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$	\$ 7,286.98	\$ 7,286.98
Security deposits		1,250.00	1,250.00
Due to other funds	<u>49,958.00</u>		<u>49,958.00</u>
TOTAL LIABILITIES	<u>49,958.00</u>	<u>8,536.98</u>	<u>58,494.98</u>
FUND BALANCE			
Unreserved - undesignated	<u>59,385.17</u>	<u>10,127.66</u>	<u>69,512.83</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 109,343.17</u>	<u>\$ 18,664.64</u>	<u>\$ 128,007.81</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE
CITY OF LAPEER, MICHIGAN**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	GENERAL OPERATIONS	LCA FUND	TOTAL
REVENUES			
Property taxes	\$ 32,804.87	\$	\$ 32,804.87
Penalty and interest	1,123.41		1,123.41
Interest income	4,664.63	285.17	4,949.80
Rental income		14,448.50	14,448.50
MCACA Grant		2,300.00	2,300.00
Miscellaneous	1,500.00	1,834.86	3,334.86
TOTAL REVENUES	<u>40,092.91</u>	<u>18,868.53</u>	<u>58,961.44</u>
EXPENDITURES			
Supplies		2,671.18	2,671.18
Property and boiler insurance		487.00	487.00
Equipment rental		907.65	907.65
Attorney	841.25		841.25
Exhibit fees		5,753.10	5,753.10
Design committee	1,393.50		1,393.50
Beautification	958.66		958.66
Memberships and subscription		214.95	214.95
Advertising		938.25	938.25
Lapeer Development Corporation	750.00		750.00
Development committee	6,959.88		6,959.88
Printing		871.72	871.72
Conferences and workshops		200.00	200.00
Property maintenance and utilities	1,959.82	18,041.25	20,001.07
Promotion services agreement	45,000.00		45,000.00
Buildings	28,514.40	340,817.81	369,332.21
Miscellaneous	<u>(446.35)</u>	<u>9,288.73</u>	<u>8,842.38</u>
TOTAL EXPENDITURES	<u>85,931.16</u>	<u>380,191.64</u>	<u>466,122.80</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(45,838.25)</u>	<u>(361,323.11)</u>	<u>(407,161.36)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	89,903.51	337,500.00	427,403.51
Transfers out	<u>(117,878.68)</u>		<u>(117,878.68)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(27,975.17)</u>	<u>337,500.00</u>	<u>309,524.83</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(73,813.42)	(23,823.11)	(97,636.53)
FUND BALANCE, JULY 1	<u>133,198.59</u>	<u>33,950.77</u>	<u>167,149.36</u>
FUND BALANCE, JUNE 30	<u>\$ 59,385.17</u>	<u>\$ 10,127.66</u>	<u>\$ 69,512.83</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Downtown Development
Authority of the City of Lapeer
Lapeer, Michigan

We have audited the accompanying financial statements of the governmental activities of the Downtown Development Authority of the City of Lapeer, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Downtown Development Authority of the City of Lapeer, Michigan's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Downtown Development Authority of the City of Lapeer, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Downtown Development Authority of the City of Lapeer, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Downtown Development Authority of the City of Lapeer, Michigan, in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of management, the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
August 25, 2006



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Commissioners
City of Lapeer

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We have audited the financial statements of the Downtown Development Authority of the City of Lapeer, Michigan for the year ended June 30, 2006, and have issued our report on those statements.

As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Downtown Development Authority of the City of Lapeer. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements. No conditions were observed during the audit which are believed to be material weaknesses in the management control system.

We appreciate the cooperation and assistance provided to us by the management and staff of the Downtown Development Authority of the City of Lapeer during the audit and we thank them.

Very truly yours,

Layton & Richardson, P.C.

Certified Public Accountants

East Lansing, Michigan
August 25, 2006